

Farmdale Creamery, Inc. – Post Hearing Brief
October 10 & 11, 2007
California Department of Food and Agriculture
Consolidated Public Hearing on Amendments to the Stabilization and Marketing
Plans for Market Milk for the Northern California and Southern California
Marketing Areas & Amendments to the Pooling Plan for Market Milk

October 15, 2007

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RE: October 10-11, 2007 Class 4a and 4b Hearing -- Post Hearing Brief

To The Hearing Panel:

Farmdale Creamery, Inc. appreciates the opportunity to submit the following post-hearing brief to respond to question(s) from the hearing panel on issues presented in Sacramento on October 10 & 11, 2007. We were asked by the panel to respond in three areas:

1. Could Farmdale provide specific information about the shipping of milk out of state or milk being dumped?

If we are to continue in the dairy manufacturing industry into the future it would be important for us to maintain a good relationship with our milk supplier, so pointing and naming probably won't be in our best interest. We will say that a management representative of our co-op indicated to us that milk we would not be taking the week of August 12th through 18th would probably be diverted into Idaho. This information was given to us on or before August 10th, 2007 when we informed our co-op supplier we were shutting our cheese operation off due to the minimum regulated price being too high.

At a meeting with our co-op management on August 14th, it was clarified to us that the milk specifically allocated to us for that week had been sent to DFA's cheese plant in Corona. We surmise that meant that other milk, probably DFA's, went north into Idaho to compensate.

Lastly, we asked our co-op management about the panel's inquiries regarding milk hitting the ground or be sold out-of-state and were told by them that the co-ops report all milk movements, diversions, etc. to the CDFA and that the State already knows where it all goes. We are confused, then, by that information in this context.

2. What did we do to reach out to the producers prior to filing the petition?

The marketplace events of the spring and summer came upon us all so quickly that there was no time for protracted meetings and discussions about correcting the error of the whey factor other than the filing of the Petition on an emergency basis. Prior to this year, Farmdale had consistently reached out, through the Department and the hearing

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process, regarding the whey factor in the formula and the inequities it had already imposed.

The diversity in the whey products being created statewide, if any, make Dry Whey an inappropriate benchmark. The only common benchmark is the wet whey stream which has no value to Farmdale, even at our mid-size, because there is no market for it. The only value our whey stream has is that which we can create for it by our investment, risk taking and market finding.

3. Is there a middle ground?

The best solution is to set the minimum regulated price at a truly minimal level and allow each manufacturer and supplier organization to find the unique middle ground for that specific set of circumstances through negotiation and premium setting. The folly of the inclusion of the whey factor has now been revealed and its continuation in the 4b formula cannot continue without the specific risk of significant loss of cheese making capacity in California.

Respectfully submitted,

Farmdale Creamery, Inc.

By Norman Shotts II, President, Chairman, Owner
Michael Shotts, Treasurer, Director, Owner
Scott Hofferber MBA, CPA, Controller

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